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SUPPLEMENTARY NOTES

SUPPLEMENTARY NOTES

After the report had gone to press the writer received from the British Board of Inland Revenue documents containing the most recent interpretations of the Excess Profits Duty. At the same time he received from a representative of the British Treasury a number of corrections and suggestions based on a reading of the proof sheets of the report. The material was of such great importance as to make advisable the insertion of the following notes which have been arranged to correspond with the pages and captions of the report proper.

Page 5. THE MUNITIONS LEVY.—It should be clearly understood that the "control" devices other than the Munitions Levy, were put into operation after the imposition of the Excess Profits Duty and the Excess Mineral Rights Duty.

Page 7. Second paragraph. The last sentence in this paragraph is not intended to imply that controlled firms were not liable to Excess Profits Duty before January 1, 1917. The statement refers to administration.

Page 10. 1915 Act.—Second paragraph. The statement is made that the British statute specifically excepts "husbandry." It is pointed out elsewhere (page 27) that the exception is restricted to husbandry in the United Kingdom.

Page 11. First paragraph. The statement is made that the Duty is a tax on profits arising during the war. As explained later the tax was actually applied in certain cases to profits which arose before the declaration of war (page 34 *et seq.*) and is now being applied to post-war profits (page 22 *et seq.*).

Page 23. 1920 BUDGET PROPOSALS.—The text of the 1920 Finance Act arrived in time to print the portions dealing with the Excess Profits Duty as Appendix B and the portions dealing with the new flat tax on "concerns with limited liability" as Appendix C of this report. It should be noted that the rate of the Duty was fixed at 60 per cent as forecast in the paragraph on page 23.

The continuance of the Duty and the increase of the rate to 60 per cent is accompanied by the establishment of an important series of additional relief provisions. These may be summarized as follows:

(1) The initial exemption of £200 (described *supra*, p. 33 *et seq.*) is increased to £500 "in the case of a trade or business owned or carried on" by a person who was in the service during the war in case the business has been started for the first time or, if discontinued during the war, was restarted after discharge from the service. Section 44 (3). For details, *cf.* Appendix B, *supra*.

(2) The modification in the initial exemption made in 1917 (*cf. supra*, p. 34) was based on a limitation in the pre-war standard of £500, together with a fraction involving the figure of £2000: The

new Act raises these figures to £2000 and £4000, respectively. For details, *cf. supra*, Appendix B, section 47).

(3) An important change is made in the standard by which the richness of the profits is tested. The standards previously available are fully described on page 73 *et seq.* The 1920 Act creates a new standard which may be substituted for the old Pre-War Standard (which, it will be recalled may be either the Profits Standard or the Percentage Standard). This new standard, known as *The Substituted Standard*, consists "of an amount equal, in the case of a trade or business which had no pre-war trade year, to the statutory percentage on the average amount of capital employed in the first accounting period, and, in the case of any other trade or business, to the percentage standard, with the addition in either case of a sum of five hundred pounds in respect of each working proprietor in the trade or business." For the various restrictions and provisos, *cf. supra*, Appendix B, Section 45. The most significant point is, of course, the £500 pound allowance for each "working proprietor."

(4) The statutory percentage, described *supra*, pp. 91-93, is increased so as to make the additional allowance for new concerns or for new capital in old concerns five per cent in place of three per cent. *Cf. supra*, Appendix B, section 47.

(5) Finally a closely restricted deduction is permitted for charitable contributions. Such contributions may be deducted not merely by individuals, as with us, but by all businesses. The deduction of such contributions is limited to five per cent of the profits and to twenty per cent of the contributions actually made. *Cf. supra*, Appendix B, section 48.

Page 30. Controlled Establishments.—With respect to the next to the last sentence, *cf. note* under page 5 above.

Page 32. Colonial Double Taxation.—It develops that the arrangement with New Zealand has never matured because of the repeal of the New Zealand duty. An arrangement such as that indicated is now in force with Southern Rhodesia and is under discussion with the commonwealth of Australia.

Page 34. *Rates and Dates of Application*.—*Cf.* discussion of 1920 Finance Act under "Page 23" in these SUPPLEMENTARY NOTES. With respect to the statement that "the two taxes were finally merged in 1917," it should be pointed out that the process consisted of the abandonment of the Munitions Levy and the complete substitution of the Excess Profits Duty.

Pages 36 and 37. The 40 per cent rate for 1921 is a promise but is not statutory under the 1920 Finance Act.

Page 40. *Consolidated Returns*.—Second paragraph. The British require a consolidated return only if the companies are carrying on the same type of business.

Page 47. *Set-off and Re-payment for Bad Years*.—The paragraph beginning "The interpretation of this section" is not strictly accurate. In practice the set-offs in one business against the excess

profits of another in the same ownership is restricted to losses and not to mere deficiencies below the pre-war standard.

Page 60. THE RULES OF THE "WHITE PAPER" OF 1917.—Only part of these rules have actually been put into effect, the remainder being held in abeyance until the final abandonment of the Duty. In fact the business men are not satisfied with either the "White Paper" or the recommendations of the Committee on Financial Risks. The Inland Revenue has recently re-discussed the problem with them and what the final result will be is as yet uncertain.

Page 69. *Capital Gains*.—It develops that the Inland Revenue has never admitted the contention that a profit on a sale of trading stock in bulk could not be taxed.

Page 74. WHEN PRE-WAR PERIOD IS SHORT.—*Cf.*, discussion of 1920 Finance Act under "Page 23" in these SUPPLEMENTARY NOTES.

Page 74. *The Percentage Standard*.—*Ibid.*

Page 78. ALLOWANCES FOR INCREASES OR DECREASES OF INVESTED CAPITAL.—*Ibid.*

Page 81. *Invested Capital*—*When utilized in British Procedure*.—*Ibid.*

Page 83. BORROWED MONEY EXCLUDED FROM INVESTED CAPITAL.—In last line on page, "deducted from" should read "included in." The provision included in the Corporation Profits Tax of 1920 for distinguishing between permanent and temporary indebtedness is of interest in this connection. *Cf.* Appendix C, *supra*.

Pages 85 and 86. "INADMISSIBLE" ASSETS.—It should be made clear that only type of investment which is ever recognized as "invested capital" are the British war securities.

Pages 90 and 91. GOOD-WILL AND PATENTS.—The case cited at the bottom of page 90 was that of a company engaged in development work.

Page 91. *General*.—*Cf.* discussion of 1920 Finance Act under "Page 23" in these SUPPLEMENTARY NOTES.

Page 92. Table of statutory percentages. *Ibid.*

Page 101. BOARD OF INLAND REVENUE.—The accountability of the Board of Inland Revenue to the Lords of the Treasury is a disputed point. Some authorities hold that their responsibility is directly to the Chancellor of the Exchequer.

Page 116. APPEALS.—There have been between 40 and 50 appeals to the High Court from decisions of the general or special commissioners.

Page 120. *Appeals to Income Tax Officials*.—The statement that the Special Commissioners are "income tax officials of long standing," is not intended to imply that the incumbents of the office are old income tax officials but that the office of Special Commission is a long-established part of the British income tax machinery.

Page 133. LIST OF INCREASED STATUTORY PERCENTAGES.—*Cf.*, discussion of 1920 Finance Act under "Page 23" in these supplementary notes.

Page 134. The following list shows the increases in the statutory percentage granted since the compilation of the list printed in the text. It should be noted that the 1920 Finance Act increases the basic percentage for new concerns and for new capital in old concerns from 9 and 11 per cent to 11 and 13 per cent.

	<i>Additional Percentage</i>
Aircraft Engines Manufacture	3
Aluminium Production	11½
Button Manufacture	21½
Cane Sugar Production (British West Indies).....	1
Cinchona (Quinine) Tree Cultivation (East Indies, exclud- ing Indian Empire)	4
City Drainage (Chile)	11½
Coal Mining (Assam)	4
Coffee-growing (East Indies, excluding Indian Empire)....	3
Drapers and General Storekeepers (Brazil).....	11½
Electric Light and Power in Argentine.....	3
Ferro-concrete Shipbuilding	9
Fireclay Mining	1
Gold Mining in Brazil	7
Iron and Steel, manufacture from scrap (South Africa)...	4
Iron Ore Mining in Iberian Peninsula.....	4
Land in Egypt, Agricultural	3
Land in Egypt, Reclaimed	5
Lead and Zinc Mining (Italy).....	2
Manganese Ore Mining (Iberian Peninsula).....	61½
Rice Growing (East Indies).....	1
Sisal (East Africa)	4
Spelter Manufacture	1
Teak Wood, Buying, Cutting and Selling (East Indies, excluding Indian Empire)	4
Telephone Service (Colombia)	11½
Tin Mining (Bolivia)	7
Tin Smelting in the East	11½
Typewriter Manufacture	3
Weldless and Welded Tubes.....	1
Wrought Iron Manufacture	1